Consolidated Statement of Income and Retained Earnings

For the 52 Weeks Ended December 29, 1979 and December 30, 1978
Safeway Stores, Incorporated and Subsidiaries

	1979	1978
Sales	$13,717,861,000	$12,550,569,000
Cost of sales	10,793,874,000	9,829,071,000
Gross profit	2,923,987,000	2,721,498,000
Operating and administrative expenses	2,620,415,000	2,371,949,000
Operating profit	303,572,000	349,549,000
Interest expense (Note C)	91,276,000	74,110,000
Loss on translation of foreign currencies	1,964,000	7,856,000
Other (income), net	(14,447,000)	(9,135,000)
Income before provision for income taxes	224,779,000	276,718,000
Provision for income taxes (Note D)	81,456,000	130,600,000
Net income (per share: $5.49 and $5.60)	**143,323,000**	**146,118,000**
Retained earnings at beginning of period	830,189,000	743,995,000
Cash dividends on common stock (per share: $2.60 and $2.30)	(67,900,000)	(59,981,000)
Additions resulting from stock acquisitions	39,000	57,000
Retained earnings at end of period	**$ 905,651,000**	**$ 830,189,000**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

For the 52 Weeks Ended December 29, 1979 and December 30, 1978
Safeway Stores, Incorporated and Subsidiaries

	1979	1978
Funds provided:		
Net income	$143,323,000	$146,118,000
Add charges (credits) to income not requiring funds:		
Depreciation and amortization	183,955,000	166,623,000
Increase (decrease) in deferred income taxes	(7,788,000)	9,736,000
Increase in accrued claims	8,480,000	11,067,000
Stock issued under sales incentive plan	—	413,000
Total funds provided from operations	327,970,000	333,957,000
Additions to long-term debt	124,708,000	98,461,000
Sale of common stock to employees	778,000	1,180,000
	453,456,000	433,598,000
Funds used:		
Additions, net of disposals, to:		
Property	297,222,000	191,889,000
Property under capital leases	124,624,000	95,148,000
Cash dividends on common stock	67,900,000	59,981,000
Payments on long-term debt	49,786,000	54,360,000
Other uses, net	523,000	1,252,000
	540,055,000	402,630,000
Increase (decrease) in working capital (Note L)	$ (86,599,000)	$ 30,968,000

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

As of December 29, 1979 and December 30, 1978
Safeway Stores, Incorporated and Subsidiaries

Assets	1979	1978
Current assets:		
Cash	$ 97,872,000	$ 136,531,000
Receivables	60,094,000	52,104,000
Merchandise inventories (Note A)	981,305,000	924,679,000
Prepaid expenses	68,543,000	70,276,000
Total current assets	1,207,814,000	1,183,390,000
Other assets:		
Licenses, notes receivable and investments	27,391,000	26,398,000
Deferred income tax charges	1,586,000	—
Excess cost of investment in subsidiaries over net assets at date of acquisition, net of amortization	2,180,000	2,396,000
	31,157,000	28,794,000
Property (Note G):		
Land	111,238,000	82,471,000
Buildings	153,202,000	147,179,000
Leasehold improvements	295,835,000	223,398,000
Fixtures and equipment	1,196,024,000	1,057,448,000
Automotive equipment	153,839,000	145,777,000
	1,910,138,000	1,656,273,000
Less accumulated depreciation and amortization	818,673,000	730,912,000
	1,091,465,000	925,361,000
Property under capital leases, less accumulated amortization of $447,938,000 and $421,735,000	770,332,000	698,222,000
	$3,100,768,000	$2,835,767,000

See accompanying notes to consolidated financial statements.

Liabilities and Stockholders' Equity	1979	1978
Current liabilities:		
Notes payable (Note E)	$ 136,792,000	$ 57,342,000
Current obligations under capital leases	44,273,000	41,084,000
Current maturities of notes and debentures	7,223,000	6,793,000
Payables and accruals	873,333,000	808,070,000
Income taxes payable	19,599,000	56,908,000
Total current liabilities	1,081,220,000	970,197,000
Long-term debt:		
Obligations under capital leases (Note F)	846,179,000	766,298,000
Notes and debentures (Note G)	109,477,000	114,436,000
	955,656,000	880,734,000
Deferred income taxes	—	6,202,000
Accrued claims and other liabilities	51,278,000	42,260,000
Commitments and contingencies (Notes E H & I)		
Stockholders' equity (Notes G, J & K):		
Preferred stock — 4% cumulative, $100 par value		
Authorized and unissued 220,372 shares		
Common stock — $1.66⅔ par value		
Authorized 75,000,000 shares		
Outstanding 26,115,917 and 26,096,966 shares	43,527,000	43,495,000
Additional paid-in capital	63,436,000	62,690,000
Retained earnings	905,651,000	830,189,000
	1,012,614,000	936,374,000
	$3,100,768,000	$2,835,767,000

W. S. Mitchell

After 43 years of distinguished service, W. S. Mitchell retired at year-end as Chairman of the Board and Chief Executive Officer. He will continue as a Director and as Chairman of the Executive Committee.

A Certified Public Accountant, Bill Mitchell has held a wide range of executive posts including Controller, Vice President in charge of Supply Operations, and Executive Vice President with responsibility for the Company's Canadian and overseas subsidiaries. He was elected President in 1971, became CEO three years later and had been Chairman since 1977.

Under Mr. Mitchell's direction, Safeway has achieved remarkable growth and record performance levels. We gratefully acknowledge his contributions.

Peter A. Magowan

Succeeding Mr. Mitchell as Chairman and CEO is Peter A. Magowan, most recently a Vice President and Regional Manager responsible for five Retail Divisions in California, Nevada and Arizona.

Mr. Magowan brings a wealth of talent and vitality to his new assignment. Following graduation from Stanford University, he earned a master's degree at Oxford and later did post-graduate work at the Johns Hopkins School of Advanced International Studies. After joining Safeway as a real estate negotiator in Washington, D.C., he served as a District Manager in Houston, a Retail Operations Manager in Phoenix and a Division Manager in Tulsa. From 1976 until 1978 he was in charge of the Company's international operations. He was elected a Director last year.

Highlights	1979	1978
Sales	$13,717,861,000	$12,550,569,000
Net Income	143,323,000	146,118,000
Net Income Per Share	5.49	5.60

To Safeway Shareholders, Employees, and Customers:

The year 1979 ended another successful decade for Safeway, and we now look ahead to Entering the Eighties — the theme of this report.

During 1979 dollar sales hit a new high of $13.7 billion, the most ever achieved by a retail food concern, running 9.3% ahead of 1978. Much of this was price inflation, but we have reason to believe it also reflected a gain in new customers and in the amount of buying by previous Safeway shoppers. (The CPI regularly measures price changes on a fixed list of products, but consumers do not necessarily buy this list — at least in the same quantities — during a period of rising prices. They shift their product mix and make substitutions to trim the budget.)

The rate of sales gain was somewhat less than the 11.6% achieved the year before, largely because of two reasons: First, it is compared with a previous year in which there was heavy emphasis on cash game promotions. Secondly, a significant number of our new stores came on stream later in the year than usual, so that the impact of these new facilities was not reflected in 1979 sales.

The same factors in turn had an influence on net profit, as did an aggressive "Price Cutter" program which we instituted in a number of major areas; we believe the latter action bolstered our price image, but it did (as expected) have a dampening effect on profits. Net income totaled $143.3 million ($5.49 per share) versus $146.1 million ($5.60 per share) a year ago.

Seventy-seven new stores were opened in the last half of the year; these, plus another 136 which were under construction at year-end, will account for an important addition to our total square footage and should have a positive effect on 1980 sales.

Dividends paid on common stock in 1979 amounted to $2.60 per share, this being the tenth consecutive year that the annual dividend payout has increased.

The Seventies represented ten years of increasing financial gains for Safeway shareholders, during which period we became the Number One food retailer worldwide. And a period in which we gained nearly 50% in total square footage of retail sales area, and added more than 50,000 jobs to the economy.

Many things were started during the '70s which will bear fruit in the '80s — our Super Store program (described in the text), our steady expansion overseas, new innovations in warehousing, merchandising, advertising. And perhaps most important of all, a young but seasoned executive group of well-trained and well-motivated administrators who are ready to carry the ball.

Just in the retail area alone, during the current year we plan to train at least 22 new District Managers, 327 Store Managers and 900 Assistant Store Managers.

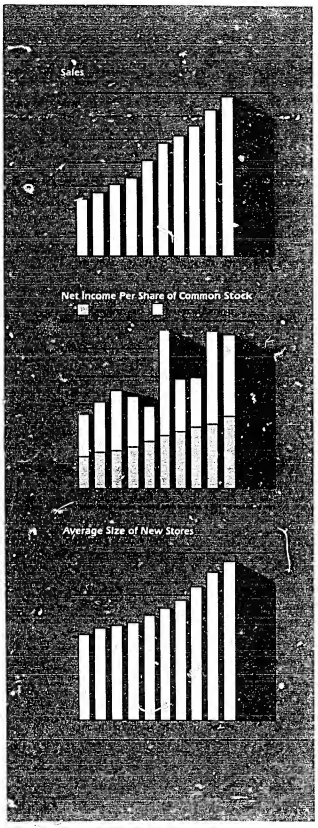
As mentioned later in the report, we are proceeding on several fronts to give customers an increasing variety of merchandise and services (e.g. health food centers, delicatessens, plants and flowers, automotive supplies, pharmacies, gift centers, bakeries, free standing beverage stores, etc.). To do this we are building stores of 40,000 square feet and larger, to accommodate consumer demand for one-stop shopping convenience.

For the more immediate future, during 1980 we foresee a challenging year during which consumers will follow a cautious buying pattern to protect their resources in an atmosphere of high mortgage rates, high energy costs, and economic uncertainties. Assisted by a 53-week fiscal year, we will make every effort to build the type of customer confidence in Safeway which will yield favorable results in this environment.

W. S. Mitchell
Retired Chairman and Chief Executive Officer

Peter A. Magowan
Chairman and Chief Executive Officer

March 1, 1980

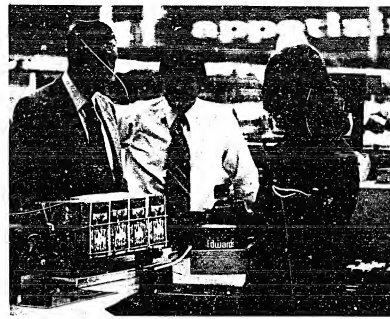


10 Year Summary

	1979(1)
Earnings	
Sales	$13,717,861
Percent of annual increase	9.3%
Cost of sales	10,793,874
Gross profit	2,923,987
Percent of sales	21.3%
Operating and administrative expenses	2,620,415
Percent of sales	19.1%
Interest expense	91,276
Other income—net	(12,483)
Income taxes	81,456
Net income	$ 143,323
Percent of sales	1.04%
Percent of average stockholders' equity	14.71%
Per weighted average share of common stock	$ 5.49
Cash dividends per share of common stock	2.60
Weighted average number of shares of common stock outstanding	26,113,785
Financial Statistics	
Working capital	$ 126,594
Current assets per dollar of current liabilities	1.12
Additions, net of disposals, to:	
Property	297,222
Property under capital leases	124,624
Depreciation and amortization	183,955
Total assets	3,100,768
Long-term debt	955,656
Equity of common stockholders	1,012,614
Per share of common stock	38.77
Cash dividends on common stock	67,900
Other Statistics	
Employees at end of year	148,876
Stores opened during year	104
Stores closed during year	115
Total stores at end of year	2,425
Total store area at year end (thousands of square feet)	59,470
Average annual sales per store	$ 5,554
Market price range of common stock (calendar year)	44-33⅛

Notes: Dollars are in thousands except per share figures.
(1) Reflects the LIFO method of valuing certain inventories.

1978[1]	1977[1]	1976[1]	1975[1] (53 Weeks)	1974[1]	1973	1972	1971	1970 (53 Weeks)
$12,550,569	$11,249,398	$10,442,531	$9,716,889	$8,185,190	$6,773,687	$6,057,633	$5,358,837	$4,860,167
11.6%	7.7%	7.5%	18.7%	20.8%	11.8%	13.0%	10.3%	18.6%
9,829,071	8,916,719	8,363,555	7,750,304	6,647,799	5,447,736	4,837,185	4,263,937	3,858,175
2,721,498	2,332,679	2,078,976	1,966,585	1,537,391	1,325,951	1,220,448	1,094,900	1,001,992
21.7%	20.7%	19.9%	20.2%	18.8%	19.6%	20.1%	20.4%	20.6%
2,371,949	2,082,246	1,838,045	1,632,824	1,339,075	1,121,580	1,007,661	902,869	825,371
18.9%	18.5%	17.6%	16.8%	16.4%	16.6%	16.6%	16.8%	17.0%
74,110	70,104	63,254	68,816	66,683	55,326	51,638	44,182	39,926
(1,279)	(3,918)	(6,218)	(5,397)	(4,739)	(4,616)	(3,616)	(3,967)	(764)
130,600	81,942	83,052	124,088	59,271	69,204	75,495	73,280	70,057
$ 146,118	$ 102,305	$ 100,843	$ 146,254	$ 77,101	$ 84,457	$ 89,270	$ 78,536	$ 67,402
1.16%	.91%	.97%	1.51%	.94%	1.25%	1.47%	1.47%	1.39%
16.37%	12.40%	12.99%	20.83%	12.14%	14.23%	16.52%	16.11%	15.16%
$ 5.60	$ 3.93	$ 3.89	$ 5.64	$ 2.98	$ 3.28	$ 3.48	$ 3.08	$ 2.64
2.30	2.20	2.05	1.90	1.70	1.50	1.35	1.30	1.15
26,075,822	26,021,220	25,945,775	25,911,286	25,832,351	25,751,349	25,642,110	25,533,257	25,490,107
$ 213,193	$ 182,225	$ 225,156	$ 218,541	$ 118,112	$ 168,582	$ 194,261	$ 131,500	$ 117,771
1.22	1.22	1.31	1.34	1.17	1.31	1.49	1.36	1.36
191,889	223,750	152,224	108,777	149,902	139,400	143,340	91,003	91,505
95,148	90,691	40,165	82,243	89,454	59,103	67,675	69,908	67,576
166,623	148,024	136,555	127,857	116,509	102,460	94,321	84,094	76,806
2,835,767	2,561,784	2,319,149	2,187,947	2,045,192	1,837,800	1,623,166	1,413,702	1,278,388
880,734	836,633	766,596	761,107	703,431	663,931	645,602	526,289	478,184
936,374	848,587	801,345	751,598	652,467	617,738	569,613	510,961	463,785
35.88	32.58	30.84	28.98	25.24	23.95	22.15	19.99	18.19
57,981	57,256	53,190	49,249	43,926	38,640	34,636	33,200	29,315
144,243	139,865	133,083	127,004	121,355	117,721	105,613	97,463	96,760
111	126	109	111	164	143	142	121	128
103	136	122	86	102	110	94	135	91
2,436	2,428	2,438	2,451	2,426	2,364	2,331	2,283	2,297
57,461	55,184	53,223	51,854	50,159	46,480	44,844	42,752	41,769
$ 5,098	$ 4,553	$ 4,222	$ 3,935	$ 3,360	$ 2,831	$ 2,613	$ 2,308	$ 2,094
46-35⅛	50⅜-39	50¼-39⅛	52⅛-34⅛	43⅞-29⅝	44⅛-27¼	44¼-34	40¼-32⅛	34⅛-22⅛



Dale L. Lynch, President, and Ronald K. Parmelee, Electronic Store Level Systems Coordinator, review one of the 28 checkstand scanning systems installed in 1979.

A Report from the President

A number of important economic and social developments are unfolding that will have a significant impact on our operations in the coming decade. As discussed briefly on the following pages, we believe Safeway is well positioned to adapt and grow in this changing environment.

More demand for one-stop shopping

A major recent development expected to continue into the decade ahead is a growing consumer preference for one-stop shopping—the ability to purchase most everyday household products and services in a single store.

With the outlook uncertain about gasoline's availability and cost, consumers in the eighties will be more judicious in their driving. As a result, the practice of "store hopping" will in all likelihood diminish.

At the same time people will have more diverse interests and, consequently, greater demands on their time. This will be particularly true of working women, who often must divide their time between traditional homemaking roles and jobs outside the home. By 1990 women holding or seeking jobs away from home will account for more than 45 percent of all workers in the U.S., up from about 41 percent of the total work force at the start of the decade. Sizable increases are projected for the female labor force in Canada as well.

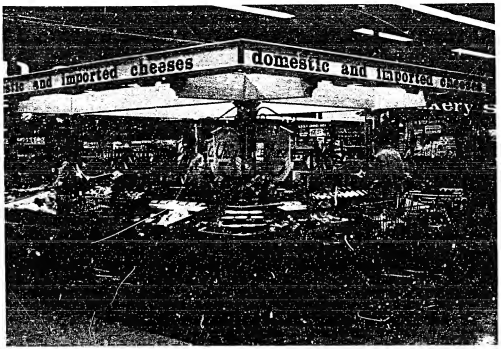
Demographics also favor the move to one-stop shopping. During the eighties tens of millions of individuals from the post-World War II "baby boom" generation will be passing through the years of household formation and expansion, when both income and spending greatly increase. Consumers in this group will have a wider range of routine shopping needs and will want to satisfy them as conveniently as possible.

For these and other reasons, shoppers will consolidate errands more so than at present and will be increasingly receptive to the idea of seeking most of their everyday needs under one roof.

Development of Super Stores

More than groceries will bring shoppers to the store of the eighties. In response to changing consumer needs and the growing demand for one-stop convenience, supermarkets will continue to expand their range of products and services.

Consistent with this trend, the Super Store concept which emerged gradually during the seventies will mature further and become the dominant outlet of the coming decade. These stores have more to offer busy shoppers. In addition to expanded selections of products found in a conventional supermarket, Super Stores feature a broad assortment of general merchandise and often include specialty departments such as service cheese centers, bakeries, delicatessens, and photo



A number of our Super Stores feature service cheese centers. Shoppers can choose from a wide selection of domestic and imported varieties.

and gift centers. Some even have pharmacies.

Safeway operated over 350 Super Stores as of year-end 1979, and we are continuing to emphasize and refine the concept in our new store planning. As shown on the chart at the bottom of page 2, we have been gradually increasing store sizes to accommodate the added selections our customers desire. Our new stores last year averaged nearly 38,000 square feet, an increase of about 2,700 square feet over 1978. Those scheduled to open in 1980 will average 39,400 square feet.

Greater management skills

To assure that those placed in charge of our Super Stores have the necessary operational and leadership skills, we are intensifying our training programs for store managers. More so than in the past, these individuals will have to be innovative merchants, skilled technicians and accomplished team builders.

As new and expanded merchandise lines are added to their stores, managers will need a broader, more detailed knowledge of product movement, seasonal fluctuation and other characteristics. Moreover, they will play an increasingly important role in developing merchandising programs which are uniquely suited to their customers' needs and interests.

Particularly helpful in this regard will be up-to-the-minute reports generated by computer-assisted check-stand scanning systems. Local management will have

Last year Barbara Baldwin became the Company's first female District Manager. Her district, which covers six counties in Delaware and eastern Maryland, is a multi-million dollar business.

Men account for a large share of our customers. To better serve their needs and interests, we have expanded certain merchandise lines that appeal to male shoppers and have added some new ones.

instantaneous access to data useful in measuring the effectiveness of special promotional activities, price reductions and the like. Other applications will enable managers to analyze sales trends more accurately.

Beyond the merchandising and technical expertise required of a Safeway store manager in the decade ahead, he or she will also need a well developed set of interpersonal skills to effectively supervise a larger, better educated work force. Our newest stores, for example, may be staffed by as many as 100 employees, many of whom will have had some college training. Their needs and interests are changing. While pay, benefits and security are still key motivators, other considerations such as job satisfaction and self-fulfillment are becoming increasingly important.

These and other developments call for strong but responsive store leadership. We will have qualified people in place to provide it.

More leisure time

Consumers in the eighties will have more time to pursue leisure and recreational interests. There are several reasons for this development, chief of which are shifting demographic patterns, a gradually declining workweek and steadily rising household incomes.

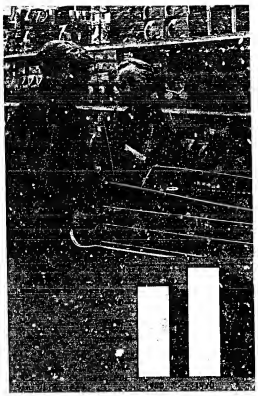
Leisure-related spending is estimated to account for one-eighth of all personal consumption expenditures. In 1978, the latest full year for which statistics are available, outlays for leisure and recreational activities exceeded $180 billion in the U.S alone. If recent trends continue, that figure is expected to double by the end of this decade.

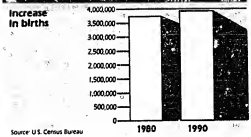
Shoppers will be able to purchase a number of their leisure-time needs at Safeway. Many of our larger new stores carry extensive lines of recreational products, including books and magazines, cameras, televisions, stereo equipment, records and tapes, and patio furniture, to name just a few.

More shopping by men

About a third of our customers are men, either shopping alone or with their wives. As the growth of one-person households and two-income families continues, we expect the share of male shoppers to increase.

Our wider product mix reflects this. We have expanded our selections of automotive products, gardening supplies and other household maintenance items typically purchased by men, and have added a number of new hardware lines. We are also reviewing our store operating hours, since both men and women who hold





Source: U.S. Census Bureau

Jobs outside the home favor shopping in the evening.

Even when they don't come along to the store, men still exert considerable influence on what is bought. According to a recent study, product and brand purchasing decisions made by husbands are appreciably higher than their share of store visits would indicate, and tend to increase as income levels rise.

More senior citizens

More than 24 million persons, or about one-eighth of the current U.S. population, are age 65 or older. By 1990 their numbers are projected to increase to approximately 30 million.

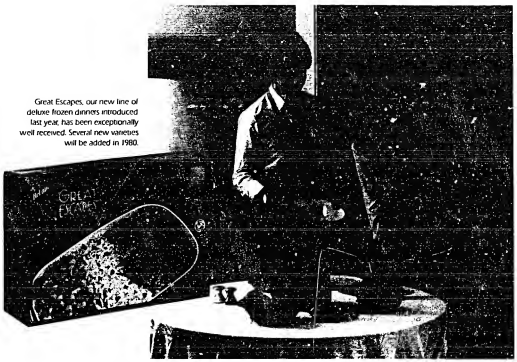
Although economic prospects appear to be somewhat brighter for seniors than in previous decades, their median household income will remain well below the national average. Consequently, our elderly customers will continue to be extremely price-conscious. To assist them and other consumers with limited food budgets, we will continue to seek out and call attention to exceptional values.

Older shoppers often have special dietary needs. As part of our ongoing consumer information efforts, we are studying methods by which those on restricted diets could locate desired foods in our stores more easily. And since nearly a third of all seniors live alone, our stores will have representative assortments of products packaged in smaller portions, including fresh meats.

New baby boom

During the eighties, U.S. population is expected to grow by 1.5 million to 2 million a year, depending on the birth rate. That rate is currently below the replacement level at which there would be zero population growth, but annual births will still increase moderately because of the large numbers of women who will be in their prime childbearing years.

As this trend unfolds, we look for an upturn in sales of baby foods, formulas, disposable diapers and other supermarket products associated with family formation. Our stores carry the leading national brands and a number of items under our own label.



Great Escapes, our new line of deluxe frozen dinners introduced last year, has been exceptionally well received. Several new varieties will be added in 1980.

More one- and two-person households

More than half of all households in the U.S. today are maintained by only one or two persons. During the eighties, both the number and proportion of these smaller households will increase substantially, while typical family size is expected to decline from the current statistical average of 2.8 persons to a new low of 2.4.

According to the Census Bureau, the traditional family unit of father, mother and one or more children living at home now accounts for less than a third of all American households. This changing profile is attributed to a number of factors, including the shifting age structure of the population, a trend to later marriages, changing attitudes about divorce and the huge influx of women into the work force. The latter development is particularly significant; two-income families now outnumber those with with a single wage earner.

Time-conscious singles and working couples have more discretionary income than those with family responsibilities. In selecting foods they look for both convenience and quality, and want it packaged in smaller portions. Our Great Escapes line of deluxe frozen dinners meets all three criteria and has been extremely well received. We will be expanding the dinner line this year, adding five more varieties, and will also be introducing a new line of complete brunches featuring crepes and omelettes.

More sophisticated shoppers

As a group today's shoppers are highly educated, well informed and more demanding in their expectations of product quality and store services. At the supermarket they are more inclined to substitute private labels for nationally advertised brands, and they are taking better advantage of previously underutilized shopping aids such as unit pricing and nutritional labeling. Consumers today have also "rediscovered" the value of reading the store's newspaper ad and using a shopping list. Surveys show customers are doing more of both.

As an industry leader in the development of programs to help customers make wiser buying decisions, Safeway welcomes these trends. We will continue to distribute information of interest to consumers, both on our own and in cooperation with government agencies and leading universities.

More interest in health

The current strong interest in nutrition and physical fitness spans all age groups and is expected to continue into the eighties. As it does we anticipate a steadily increasing demand for products of high nutritive value —meats, fresh fruits and vegetables, whole grain breads, high fiber cereals and low fat dairy products. We also expect an upward trend in sales of dietary supplements, particularly to time-pressed shoppers who cannot always eat a well balanced meal.

Safeway is responding to these changing needs. We will be developing and distributing additional recipes for economical but nourishing meals, and plan further installments of "Know Your Food," our award-winning series of pamphlets and advertisements on food's role in good health. For those whose diets are lacking in essential nutrients, we offer a 57-item line of vitamin and mineral supplements under our own label. And in a new store in Northern California, we have included a separate department for products typically available in health food stores. Sales have thus far exceeded expectations, and other installations are under consideration.

Safeway helped to pioneer nutritional labeling in 1971 and will continue to be active in consumer education efforts to encourage proper eating habits.

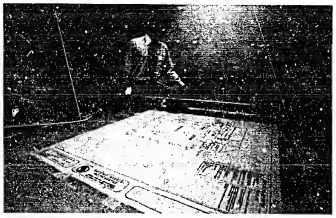
New methods of food preparation

During the eighties the average time spent in the kitchen preparing meals is likely to diminish further. As this trend continues there will be a growing demand for convenience foods and for home appliances in which they can be prepared quickly and easily.

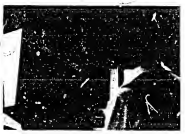
With incomes rising, consumers are buying more premixed, pre-cooked and frozen items — many of them gourmet or ethnic foods that would require hours of preparation from scratch. Encouraged by the wide acceptance of these products, processors are focusing increasing attention on other methods of food preparation. These include freeze drying, dehydro-freezing, retort packaging and a number of other processes.

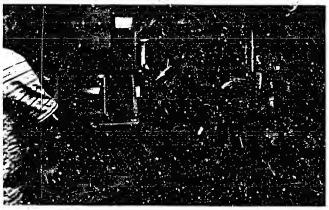
Currently the most popular kitchen devices for reducing food preparation time are microwave ovens. More than 3 million units were sold in 1979, and they can now be found in 15 percent of all households. Many of the frozen food items sold under our own label list separate instructions for microwave cooking, and a number of others have special inner packaging that can be used in microwave ovens. The ovens are available at Safeway, too, in selected stores.

Scotch Buy, our economy brand of food and household products, has gained wide consumer acceptance. A number of stores display all Scotch Buy items in a separate section.



This computer-assisted drafting system at corporate headquarters automatically plots design layouts of store departments and fixtures





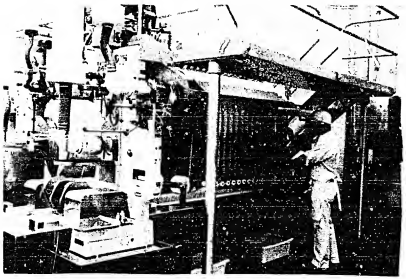
Computer-controlled, high-rise storage and retrieval system at our grocery warehouse in Clackamas, Oregon occupies only 20,000 sq. ft. of floor area

Technological advances

Barring an unforeseen discovery or method improvement which might suddenly revolutionize some phase of the food distribution system, no dramatic technological breakthroughs appear on the immediate horizon. Instead, innovations already underway are likely to be refined further and be more widely utilized.

The computer figures prominently in most of these developments. One in particular, the checkstand scanning system, will have a dramatic impact on food retailing. Described by some as the most significant industry development in 50 years, the scanner provides shoppers with greater speed and accuracy at the checkout counter and a more detailed cash register tape record of their purchases. It also enables management to

Safeway's new cheese processing plant in LaCrosse, Wisconsin utilizes state-of-the-art technology. In this photo, a sheet of warm processed cheese is extruded over a chilled drum and sliced into thin strips



A bagpipe and drum corps greeted shoppers at grand opening of our new Super Store in Airdrie, Scotland.

control inventories more effectively and to fine-tune employee scheduling. We see other applications in the not-too-distant future. Stores with scanning could easily interface with accounting systems at divisional offices or corporate headquarters, thereby eliminating the need to submit various operating reports manually. And with some modification, a scanning system could automatically reorder merchandise as a number of department stores now do.

We had scanning systems in 40 stores as of year-end 1979 and plan to install about 60 more in 1980. After the third quarter of this year, most new Safeway stores and major remodels will be equipped with scanners.

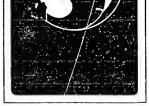
Among the most recent computer applications in the food industry are power management systems. These systems vary widely in configuration and complexity, but all are designed to monitor and control energy usage, and ultimately reduce store utility costs. Although installation can be extremely expensive, the energy savings can pay back the investment in a relatively short time. We had power management systems in 120 stores as of the end of 1979 and hope to install approximately 350 more systems in 1980.

Advanced technology will be in evidence in almost every area of our operations. In our warehouses and plants, for instance, we will continue to invest in work-saving devices to alleviate drudgery and achieve greater tonnage output. And in our trucking operations, computer-assisted vehicle routing will enable us to make more effective use of available cube space and to optimize fuel efficiency.

Supermarket popularity in foreign countries

Although distinctly North American in origin, the supermarket concept has been well received in other parts of the world and is growing in popularity. While certain modifications are necessary to tailor merchandise selections and services to local customs, the efficiency and convenience of modern food retailing have universal consumer appeal.

At fiscal year-end Safeway subsidiaries operated 454 stores outside the United States: 277 in Canada, 88 in the United Kingdom, 26 in West Germany and 43 in Australia. The European stores typically have been somewhat smaller than their counterparts in the U.S. and Canada, but that is changing rapidly. In the United Kingdom, for instance, Safeway Super Stores opened in fiscal 1979 averaged nearly 30,000 square feet. The Australian stores are closest to North American stand-



"Everything you want from a store... and a little bit more." It's true in Germany, too.

Our new store in the Georgetown section of Washington, D.C. should be one of the Company's highest volume units. The non-standard architectural style was adopted to fit in with community development plans.

ards, i.e. large, single-story outlets with spacious ground level parking. Those opened last year averaged 46,725 square feet.

International operations will continue to be an important factor in Safeway's consolidated sales and earnings. During the eighties we expect growth rates of our foreign operations to exceed the corporate average.

Looking ahead

The history of our industry has shown that sustained real growth comes only to those firms that anticipate and effectively respond to change. As the new decade begins, continuing trends and emerging new ones are shaping an operating environment which will present food retailers with significant challenges and opportunities.

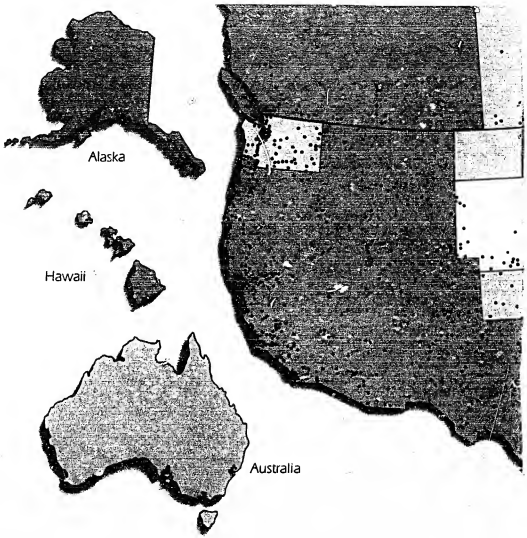
Overall economic growth is likely to slow somewhat in the eighties, due to continued uncertainty about energy and a more gradual expansion of the labor force. On the other hand, many economists are optimistic that inflation and unemployment — two of the economy's most persistently disruptive influences throughout the seventies — will both begin to recede to more manageable levels. As they do, a healthier business climate should emerge. Government policies and tax laws are likely to be more conducive to capital investment, providing a much needed infusion of funds to enable businesses to modernize facilities and take advantage of new technologies. This in turn should boost productivity and further moderate inflation.

Food expenditures as a percent of disposable income will probably continue to decline, but perhaps at a slower pace than the historical long-term trend. At the same time, discretionary spending should increase due to smaller families and steadily rising personal income levels. These are significant developments for the supermarket industry. Future growth in some areas will come largely from increased sales of higher-margin products once regarded as luxuries.

As to Safeway's outlook for the eighties, we will continue to build upon the groundwork laid in previous years. The decade just passed brought 10 years of uninterrupted sales growth and with it, the creation of some 57,000 new jobs. This was accomplished by satisfying consumer demands for more services, greater convenience and better products — the same basic demands we foresee in the decade ahead.

Historically we have been located in the faster growing areas of the U.S. and Canada. This factor will be of even greater importance during the eighties because overall population gains are predicted to be modest. As shown on the map which follows, the vast majority of our stores in the U.S. and Canada are in states and provinces which are growing faster than the national average.

It's been said that the future belongs to those who prepare for it. Safeway has made substantial investments in physical and human resources to help assure our continued growth. To the extent that we remain alert to the ever-changing needs and interests of our present customers and potential new ones, the decade of the eighties holds promise of successful results.



Safeway Today ... and Tomorrow

Expected Population Growth – U.S. & Canada
Projections for 1980 to 1990

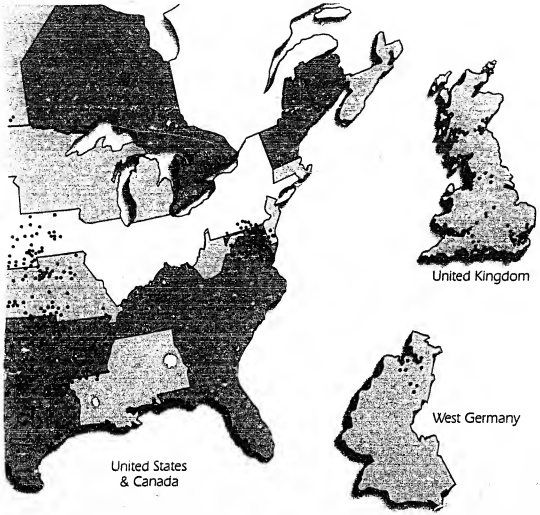
	5–10%	0–5%

Safeway Cities 1979

Where the growth will be

Although the U.S. Census Bureau and Statistics Canada predict only modest overall population growth during the eighties, a good deal of it will occur in our operating areas. We have historically been located in the faster growing sections of both countries.

As of fiscal year-end, Safeway and its subsidiaries operated 2,425 stores in the United States, Canada, the United Kingdom, West Germany and Australia. Alignment of Regions and Divisions is shown at right. In the U.S., Regional Managers are supervised by J. A. Rowland, Senior Vice President. A. G. Anselmo and John S. Kimball report to Dale L. Lynch, President, for their respective Canadian and European Divisions as does the manager of the Australia Division.



MOUNTAIN – SOUTHERN CALIFORNIA REGION • John Bell

Butte Division, Donald Gates, 34 Stores
Denver Division, Pete P. Martin, 145 Stores
Los Angeles Division, Albert J. Fulton, 173 Stores
Phoenix Division, John W. Warthan, 60 Stores
Salt Lake City Division, Gene J. Lawson, 65 Stores
San Diego Division, William M. Langley, 50 Stores

NORTHWEST – NORTHERN CALIFORNIA REGION • Fred E. MacRae

Portland Division, William D. Lowe, 93 Stores
Sacramento Division, John R. Maxwell, 91 Stores
San Francisco Division, Elton W. Starkey, 188 Stores
Seattle Division, William H. Maloney, 123 Stores
Spokane Division, John A. Cartales, 41 Stores

MIDWEST REGION • Allen Francis

Kansas City Division, W. W. Liedtke, 93 Stores
Little Rock Division, Donald J. Phillips, 73 Stores
Oklahoma City Division, Forrest Woolery, 70 Stores
Omaha Division, James R. Smith, 77 Stores
Tulsa Division, Donald R. Cannon, 55 Stores

SOUTHERN REGION • Horace A. Justice

Dallas Division, Gerald V. Curtright, 162 Stores
El Paso Division, Carey A. Ford, 58 Stores
Houston Division, Sam E. Raburn, 82 Stores

EASTERN REGION • John S. Kimball

Richmond Division, Ralph C. Ward, 73 Stores
Washington, D.C. Division, Donald J. Smith, 165 Stores

CANADA • A. G. Anselmo

Calgary Division, Vern E. Fahey, 42 Stores
Edmonton Division, D. L. Olson, 47 Stores
Regina Division, N. M. Knebel, 26 Stores
Vancouver Division, R. F. Hendy, 89 Stores
Winnipeg Division, W. F. Griffiths, 73 Stores

EUROPE • John S. Kimball

Germany Division, M. J. Fitzek, 26 Stores
United Kingdom Division, T. E. Spratt, 88 Stores

Reporting to Dale L. Lynch

Australia Division, J. W. R. Pratt, 63 Stores

Note: Above listings include certain changes made since year-end.

Consolidated Statement of Income and Retained Earnings

For the 52 Weeks Ended December 29, 1979 and December 30, 1978
Safeway Stores, Incorporated and Subsidiaries

	1979	1978
Sales	$13,717,861,000	$12,550,569,000
Cost of sales	10,793,874,000	9,829,071,000
Gross profit	2,923,987,000	2,721,498,000
Operating and administrative expenses	2,620,415,000	2,371,949,000
Operating profit	303,572,000	349,549,000
Interest expense (Note C)	91,276,000	74,110,000
Loss on translation of foreign currencies	1,964,000	7,856,000
Other (income), net	(14,447,000)	(9,135,000)
Income before provision for income taxes	224,779,000	276,718,000
Provision for income taxes (Note D)	81,456,000	130,600,000
Net income (per share: $5.49 and $5.60)	**143,323,000**	**146,118,000**
Retained earnings at beginning of period	830,189,000	743,995,000
Cash dividends on common stock (per share: $2.60 and $2.30)	(67,900,000)	(59,981,000)
Additions resulting from stock acquisitions	39,000	57,000
Retained earnings at end of period	**$ 905,651,000**	**$ 830,189,000**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

For the 52 Weeks Ended December 29, 1979 and December 30, 1978
Safeway Stores, Incorporated and Subsidiaries

	1979	1978
Funds provided:		
Net income	$143,323,000	$146,118,000
Add charges (credits) to income not requiring funds:		
Depreciation and amortization	183,955,000	166,623,000
Increase (decrease) in deferred income taxes	(7,788,000)	9,736,000
Increase in accrued claims	8,480,000	11,067,000
Stock issued under sales incentive plan	—	413,000
Total funds provided from operations	327,970,000	333,957,000
Additions to long-term debt	124,708,000	98,461,000
Sale of common stock to employees	778,000	1,180,000
	453,456,000	433,598,000
Funds used:		
Additions, net of disposals, to:		
Property	297,222,000	191,889,000
Property under capital leases	124,624,000	95,148,000
Cash dividends on common stock	67,900,000	59,981,000
Payments on long-term debt	49,786,000	54,360,000
Other uses, net	523,000	1,252,000
	540,055,000	402,630,000
Increase (decrease) in working capital (Note L)	$ (86,599,000)	$ 30,968,000

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

As of December 29, 1979 and December 30, 1978
Safeway Stores, Incorporated and Subsidiaries

Assets	1979	1978
Current assets:		
Cash	$ 97,872,000	$ 136,531,000
Receivables	60,094,000	52,104,000
Merchandise inventories (Note A)	981,305,000	924,479,000
Prepaid expenses	68,543,000	70,276,000
Total current assets	1,207,814,000	1,183,390,000
Other assets:		
Licenses, notes receivable and investments	27,391,000	26,398,000
Deferred income tax charges	1,586,000	—
Excess cost of investment in subsidiaries over net assets at date of acquisition, net of amortization	2,180,000	2,396,000
	31,157,000	28,794,000
Property (Note G):		
Land	111,238,000	82,471,000
Buildings	153,202,000	147,179,000
Leasehold improvements	295,835,000	223,398,000
Fixtures and equipment	1,196,024,000	1,057,448,000
Automotive equipment	153,839,000	145,777,000
	1,910,138,000	1,656,273,000
Less accumulated depreciation and amortization	818,673,000	730,912,000
	1,091,465,000	925,361,000
Property under capital leases, less accumulated amortization of $447,938,000 and $421,735,000	770,332,000	698,222,000
	$3,100,768,000	$2,835,767,000

See accompanying notes to consolidated financial statements.

Liabilities and Stockholders' Equity	1979	1978
Current liabilities:		
Notes payable (Note E)	$ 136,792,000	$ 57,342,000
Current obligations under capital leases	44,273,000	41,084,000
Current maturities of notes and debentures	7,223,000	6,793,000
Payables and accruals	873,333,000	808,070,000
Income taxes payable	19,599,000	56,908,000
Total current liabilities	1,081,220,000	970,197,000
Long-term debt:		
Obligations under capital leases (Note F)	846,179,000	766,298,000
Notes and debentures (Note G)	109,477,000	114,436,000
	955,656,000	880,734,000
Deferred income taxes	—	6,202,000
Accrued claims and other liabilities	51,278,000	42,260,000
Commitments and contingencies (Notes F, H & I)		
Stockholders' equity (Notes G, J & K):		
Preferred stock — 4% cumulative, $100 par value		
Authorized and unissued 220,372 shares		
Common stock — $1.66⅔ par value		
Authorized 75,000,000 shares		
Outstanding 26,115,917 and 26,096,966 shares	43,527,000	43,495,000
Additional paid-in capital	63,436,000	62,690,000
Retained earnings	905,651,000	830,189,000
	1,012,614,000	936,374,000
	$3,100,768,000	$2,835,767,000

Notes to Consolidated Financial Statements

Note A—Summary of Significant Accounting Policies.

Fiscal Year: The fiscal year for the Company and its Canadian subsidiaries ends on the Saturday nearest to December 31. Fiscal years of overseas subsidiaries follow a similar pattern but generally end on the Saturday nearest September 30, to allow sufficient time to gather information from overseas for U.S. reporting purposes.

Basis of Consolidation: Consolidated financial statements include the accounts of all subsidiaries except one minor overseas subsidiary which is included in investments at the amount of equity in net book value. All intercompany transactions have been eliminated in consolidation.

Translation of Foreign Currencies: Accounts are translated at current and historical rates as prescribed by Financial Accounting Standards Board Statement No. 8. Unrealized gains and losses from such foreign currency translation are included in income currently.

Provision For Income Taxes: The Company provides for deferred income tax charges and credits resulting from timing differences in reporting income and expenses for financial statement purposes compared to the methods of reporting for income tax purposes. These timing differences arise primarily from the use of ac- rated depreciation for tax purposes and from the accrual of claims and capitalization of leases for financial statement purposes. Current U.S. taxes are reduced for investment tax credits in the year in which the credits arise.

Net Income Per Share: Net income per share is determined by dividing consolidated net income by the average number of common shares outstanding during the year.

Merchandise Inventories: In the U.S., inventories of Grocery Department items in stores (valued by the retail inventory method) and warehouses are determined on a last-in, first-out (LIFO) basis. All other inventories are valued at the lower of cost on a first-in, first-out (FIFO) basis or replacement market. As supplemental information, if the FIFO method had been used, inventories would have been $210,626,000 and $166,908,000 higher as of December 29, 1979 and December 30, 1978, respectively, and net income would have been $22,296,000 higher ($.85 per share) in 1979 and $14,913,000 higher ($.58 per share) in 1978.

Amortization of Excess Cost of Investment in Subsidiaries: The excess cost of investment in subsidiaries over net assets at date of acquisition is being amortized and charged against income in twenty equal annual amounts through 1989.

Property and Depreciation: Property is stated at historical cost. Depreciation is computed for financial reporting purposes on the straight-line method. The following are the principal rates of depreciation used during the year:

Stores and other buildings	2½ to 5%
Fixtures and equipment	5 to 20%
Automotive equipment	12½ to 16⅔%

Leasehold improvements include buildings constructed on leased land and improvements to leased buildings. Buildings and major improvements are amortized over the shorter of the remaining period of the lease or the estimated useful life of the assets, while other minor improvements are amortized over the shorter of the remaining period of the lease or six years. Depreciation and amortization expense for property was $131,118,000 in 1979 and $117,991,000 in 1978.

Property Under Capital Leases: Property under capital leases is amortized over the lease terms using the straight-line method. Amortization expense was $52,514,000 in 1979 and $48,333,000 in 1978.

Employee Retirement Plans: The Company's practice is to contribute the full normal cost and there is no unfunded past service liability.

Stock Options: Proceeds from the sale of common stock issued under options are added to common stock at par value and the excess is added to additional paid-in capital.

Note B—Employee Retirement and Profit-Sharing Plans.

The Company and its subsidiaries have contributory, trusteed Retirement Plans which may be amended or terminated at any time for eligible employees not covered by other plans to which the companies contribute. The assets of the trust funds are sufficient to fund vested benefits. Such contributions charged to income were $21,114,000 in 1979 and $17,305,000 in 1978. Contributions charged to income for various pension plans under union contracts were $88,765,000 in 1979 and $76,497,000 in 1978.

Contributions charged to income for the Company's U.S. and Canadian Employee Profit-Sharing Plans were $7,765,000 in 1979 and $13,729,000 in 1978.

The Company set aside $1,765,000 in 1979 and $1,196,000 in 1978 for contribution to an employee stock ownership plan which was made possible by additional investment tax credits authorized by tax legislation.

Note C—Interest Expense.

Interest expense consisted of the following:

	1979	1978
Obligations under capital leases	$67,411,000	$60,424,000
Notes and debentures	9,204,000	9,901,000
Short-term borrowings	12,309,000	3,117,000
Other	2,352,000	668,000
	$91,276,000	$74,110,000

Note D—Taxes on Income.

The components of the provision for income taxes included in the consolidated statement of income were as follows:

	1979	1978
CURRENT:		
Federal	$37,004,000	$ 83,108,000
Foreign	34,810,000	35,590,000
State	7,668,000	12,160,000
	79,482,000	130,858,000
DEFERRED:		
Federal and state (charges)	1,109,000	(7,251,000)
Foreign	865,000	6,993,000
	1,974,000	(258,000)
	$81,456,000	$130,600,000

The following represent the tax effects of the principal items for which treatment for financial statement and income tax purposes differs, giving rise to timing differences:

	1979	1978
Accelerated depreciation	$ 6,800,000	$10,433,000
Accrued claims	(837,000)	(7,266,000)
Retirement plan	6,073,000	—
Capitalized leases	(4,433,000)	(2,994,000)
Repairs expense	(3,782,000)	(1,747,000)
Other, net	(1,847,000)	1,316,000
	$ 1,974,000	$(258,000)

No provision has been made for income taxes which might be payable if earnings of Canadian and overseas subsidiaries accumulated through year-end 1979 were distributed to the parent Company, since it is the intention of Management to make no such distributions. The undistributed earnings on which the parent Company has not provided for income taxes were $426,213,000 at the end of 1979 and $357,236,000 in 1978.

United States and Canadian Corporation Income Tax Returns for all years prior to 1974 and 1976, respectively, have been reviewed by taxing jurisdictions. Substantially all deductions which have been or may ultimately be disallowed will be carried forward as timing differences and claimed as deductions in future years, thereby having no significant effect on reported earnings.

The Company's effective income tax rate varies from the statutory Federal income tax rate as shown below:

	1979		1978	
	Amount	%	Amount	%
Federal income taxes at statutory rate	$103,398,000	46.0	$132,825,000	48.0
Investment tax credit	(15,710,000)	(7.0)	(13,156,000)	(4.8)
United Kingdom inventory relief (1)	(12,041,000)	(5.4)	—	—
State taxes on income, less Federal income tax benefit	4,182,000	1.9	6,490,000	2.4
Other, net	1,627,000	.7	4,441,000	1.6
	$ 81,456,000	36.2	$130,600,000	47.2

(1) Due to a change in United Kingdom tax law concerning the recapture of "stock relief" tax benefits realized by the Company on merchandise inventory increases, and in accordance with Financial Accounting Standards Board Statement No. 31, the provision for income taxes for 1979 was reduced by $12,041,000 of tax benefits which would have been deferred under prior accounting rules. Of this amount, $7,979,000 had been deferred in prior years. The reversal of these previously deferred income taxes had the effect of increasing net income in 1979 by $7,979,000 ($.31 per share).

Note E—Lines of Credit and Short-Term Borrowings.

At December 29, 1979, the Company had lines of credit amounting to $298,000,000 of which $4,512,000 were in use at that date. Compensating balances in support of these lines of credit were not material and there were no legal restrictions on withdrawals for any accounts. The Company also issues commercial paper notes of which $120,000,000 were outstanding at year end. All such borrowings have been at the prime rate of interest or lower. Additional amounts included in notes payable represent overdraft financing by the Company's overseas subsidiaries.

The maximum amount of aggregate short-term borrowings outstanding was $238,845,000 in 1979 and $96,740,000 in 1978. The approximate average aggregate short-term borrowings outstanding and weighted average interest rates during 1979 and 1978 were $105,372,000 at 11.68% and $36,214,000 at 8.43%, respectively. At year end 1979 and 1978, the average interest rates were 13.17% and 11.75%, respectively, on aggregate short-term borrowings.

Note F—Lease Obligations.

The Company and its subsidiaries occupy primarily leased premises, which were covered by 3,436 leases at December 29, 1979. Of these leases 2,033 are considered capital under Financial Accounting Standards Board Statement No. 13. The remainder are operating leases.

Most leases have renewal options with terms and conditions similar to the original lease. Of all the leases, 1,620 can be cancelled by the Company by offer to purchase the properties at original cost less amortization, with purchase obligatory upon acceptance of the offer by the landlords.

The Company owns substantially all its fixtures and equipment.

The following is a schedule by years of future minimum rental payments required under capital leases and under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 29, 1979:

	Capital Leases	Operating Leases
1980	$ 116,494,000	$ 70,449,000
1981	114,197,000	69,554,000
1982	111,583,000	67,500,000
1983	108,412,000	64,964,000
1984	105,582,000	61,865,000
Later years	1,035,336,000	584,133,000
Total minimum lease payments	1,591,604,000	$918,465,000
Less executory costs	25,160,000	
Net minimum lease payments	1,566,444,000	
Less amount representing interest	675,992,000	
Present value of net minimum lease payments	890,452,000	
Less current obligations	44,273,000	
Long-term obligations	$ 846,179,000	

In addition to minimum lease payments, contingent rentals may be paid under certain store leases on the basis of the stores' sales in excess of stipulated amounts. Contingent rentals on capital leases amounted to $7,667,000 in 1979 and $8,598,000 in 1978.

The following schedule shows the composition of total rental expense for all operating leases:

	1979	1978
Property leases:		
Minimum rentals	$78,151,000	$72,824,000
Contingent rentals	8,006,000	6,863,000
Less rentals from subleases	(5,619,000)	(5,065,000)
	80,538,000	74,622,000
Equipment leases	15,631,000	14,054,000
	$96,169,000	$88,676,000

Note G—Notes and Debentures.

Notes and debentures at December 29, 1979 consisted of:

	Due After One Year	Current Maturities
Mortgage notes payable, secured	$ 53,435,000	$4,156,000
7.40% sinking fund debentures, unsecured, due in equal installments through 1997	49,634,000	—
Other notes payable	6,408,000	3,067,000
	$109,477,000	$7,223,000

The mortgage notes payable are secured by properties which are included in the balance sheet at their net book value of $59,555,000.

The 7.40% debentures require annual sinking fund payments of $3,250,000. The Company has repurchased debentures which cover $8,866,000 of future sinking fund requirements remaining at December 29, 1979. Under the agreement covering the 7.40% debentures, $469,858,000 of the retained earnings as of December 29, 1979 were free of restrictions for dividend payments and acquisitions of common stock. Restrictions include a limitation on the creation of additional funded debt.

Aggregate annual maturities of notes and debentures for the four years beyond 1980 are:

1981	$3,391,000
1982	4,540,000
1983	6,722,000
1984	6,735,000

Note H—Commitments.

The Company has commitments under contracts for the purchase of property and equipment and for the construction of buildings. Portions of such contracts not completed at year end are not reflected in the financial statements. These unrecorded commitments amounted to approximately $116,000,000 at December 29, 1979.

Information on lease commitments is provided in Note F.

Note I—Contingent Liabilities—Litigation.

In addition to various claims and lawsuits arising in the normal course of the Company's business, as of February 29, 1980, there are actions pending against the Company charging violations of the antitrust laws and certain Civil

Rights statutes, some of which purport to be class actions and seek damages in very large amounts, as well as other relief which, if granted, would require very large expenditures.

Prior Annual Reports noted the pendency of 18 suits brought against the Company and others by various livestock producers and feeders alleging violations of the antitrust laws in the purchase and sale of meat (and of one similar suit in which the Company was named as a co-conspirator). In 10 cases the defendants have petitioned for a rehearing by the U.S. Court of Appeals for the Fifth Circuit of its 1979 decision that the actions may continue in the District Court under the "cost plus" exception to the U.S. Supreme Court's holding in the **Illinois Brick** case that only those dealing directly with defendants could recover damages under the antitrust laws. Of the remaining 8 cases, 7 in the U.S. District Court are in early stages of discovery, and 1 dismissed by the District Court was refiled in a State Court and is on appeal from dismissal by that Court.

In 1979 the Company and other supermarket firms were joined as co-defendants in a California Superior Court consumer class action filed in 1977 against various meat packers, alleging a conspiracy to fix the price of carcass beef in the Southern California area. Various motions to dismiss the complaint are pending.

While Management is unable to predict the ultimate outcome of these antitrust cases, in its opinion, the Company has good and meritorious defenses to each action and should prevail in all.

The action against Los Angeles area meat packers noted in the 1978 Annual Report was favorably settled.

Although the amount of liability at December 29, 1979 with respect to all of the above matters cannot be ascertained, Management is of the opinion that any resulting liability will not materially affect the Company's consolidated income or financial position.

Note J—Capital Stock and Additional Paid-in Capital.

Common stock outstanding increased by 18,951 shares during 1979 and 50,081 shares during 1978. Shares issued to employees under purchase options exercised were 19,970 in 1979 and 40,033 in 1978. In 1978, 10,048 shares were issued to employees under a sales incentive plan. The Company reacquired 1,019 shares in 1979 increasing treasury shares from 12,582 at December 30, 1978 to 13,601 at December 29, 1979. Additional paid-in capital increased $746,000 during 1979 and $1,509,000 during 1978 for the excess proceeds over par value of common shares issued.

Note K—Stock Options.

The following summary shows the changes during 1978 and 1979 in qualified stock options granted to key employees to purchase shares of the Company's common stock:

	Shares	Option Price
Balance, December 31, 1977	548,010	$29.13-47.88
Granted, 1978	23,700	40.50-43.43
Exercised, 1978	40,033	29.13-39.44
Expired, 1978	12,877	29.13-47.88
Balance, December 30, 1978	518,800	34.88-47.88
Granted, 1979	67,700	40.13
Exercised, 1979	19,970	34.88-39.44
Expired, 1979	73,930	34.88-47.88
Balance, December 29, 1979	492,600	40.13-47.88

At the end of 1979 there were 18,690 unoptioned shares available for granting compared with 12,460 at the beginning of the year. The number of shares as to which options were exercisable was 354,880 at the end of 1979 and 120,555 at the end of 1978.

Note L—Changes in Working Capital.

	1979	1978
Increase (decrease):		
Cash	$(38,659,000)	$ 18,395,000
Receivables	7,990,000	8,967,000
Merchandise inventories	56,826,000	114,261,000
Prepaid expenses	(1,733,000)	14,735,000
Notes payable	(79,450,000)	(5,625,000)
Current obligations under capital leases	(3,189,000)	(2,190,000)
Current maturities of notes and debentures	(430,000)	(819,000)
Payables and accruals	(65,263,000)	(82,768,000)
Income taxes payable	37,309,000	(33,988,000)
Increase (decrease) in working capital	$(86,599,000)	$ 30,968,000

Note M—Replacement Cost (Unaudited).

In compliance with rules of the Securities and Exchange Commission, the Company has developed estimated replacement costs for its merchandise inventories and certain productive capacity as of December 29, 1979 and December 30, 1978 together with related amounts of cost of sales and depreciation calculated on the basis of replacement cost for the two years then ended.

The replacement cost information together with a description of estimating techniques is included in the Company's Form 10-K filed with the Commission and available on request.

Note N — Supplementary Financial Data Adjusted for the Effects of Changing Prices (Unaudited).

The Company's primary financial statements are prepared based mainly on historical prices, that is, the prices that were in effect when the transactions occurred. The supplementary financial information discloses the effects of general inflation on the Company's merchandise inventories and property. These disclosures are made in accordance with Financial Accounting Standards Board Statement No. 33, which requires certain "constant dollar" accounting disclosures in 1979 annual reports to stockholders.

Amounts restated for the effect of general inflation shown in the supplementary financial data are stated in dollars of average purchasing power for the year 1979, using the Consumer Price Index for All Urban Consumers (CPI-U) as the basis for restating amounts recorded in dollars of purchasing power at the time of the original transactions (historical costs).

The effect on net income of general inflation in cost of sales and depreciation and amortization expense is shown below:

Net income as reported in the consolidated statement of income	$ 143,323,000
Adjustments to restate costs for the effect of general inflation:	
Cost of sales, excluding depreciation and amortization	(69,443,000)
Depreciation and amortization in:	
Cost of sales	(21,784,000)
Operating and administrative expenses	(54,284,000)
Net loss adjusted for the effect of general inflation	$(2,188,000)

The provision for income taxes as stated in the primary financial statements has not been modified to give effect to the restated amounts of cost of sales and depreciation and amortization expense.

Another supplemental disclosure is the "gain from the decline in purchasing power of net monetary liabilities," which is a component of the total increase in the Company's purchasing power during the year. Net monetary liabilities represent all monetary liabilities less all monetary assets. Monetary assets are essentially cash and claims to cash (receivables) and monetary liabilities are obligations to pay fixed amounts of cash. In a period of inflation the purchasing power of cash declines; thus, a debt incurred at the beginning of a period provides dollars of greater purchasing power than the dollars needed to repay the debt at a later point in time. The Company holds a debt position with regard to monetary items, that is, monetary liabilities exceed monetary assets, and this results in a gain in the Company's overall purchasing power during periods of inflation. The gain from the decline in purchasing power of net monetary liabilities was $202,723,000 in 1979.

Following is a comparison of selected financial data for five years, adjusted for the effect of general inflation, in dollars of 1979 average purchasing power. Amounts shown for "net assets" include restated amounts only for merchandise inventories and property (including property under capital leases). Such amounts do not purport to represent selling price, replacement cost, or any other measure of the current value of those assets.

	1979	1978	1977	1976	1975
Financial Statement Information:					
Sales	$13,717,861	$13,963,632	$13,474,486	$13,314,993	$13,104,530
Net income (loss)	(2,188)	46,681	25,826	48,180	112,438
Net income (loss) per share of common stock	(.08)	1.79	.99	1.86	4.34
Net assets at year-end	1,716,086	1,676,061	1,614,965	1,574,756	1,578,667
Other Information:					
Gain from the decline in purchasing power of net monetary liabilities	202,723	138,545	105,666	73,679	110,070
Cash dividends per share of common stock	2.60	2.56	2.64	2.61	2.56
Market price per share of common stock at year-end	32.62	43.13	48.33	62.52	59.32
Average Consumer Price Index	217.4	195.4	181.5	170.5	161.2

Note: Dollars are in thousands except per share figures.

Note O — Financial Information by Geographic Area (thousands).

	United States			Canada			Overseas	
	1979	1978	1977	1979	1978	1977	1979	1978	1977
Sales	$10,765,831	$10,033,693	$8,986,212	$1,865,524	$1,648,822	$1,554,577	$1,086,506	$868,054	$708,609
Gross profit	2,342,298	2,228,119	1,889,187	373,159	328,439	309,590	208,530	164,940	133,902
Operating and administrative expenses	2,147,143	1,971,271	1,722,286	301,076	261,870	246,870	172,196	138,808	113,099
Provision for income taxes	47,077	88,852	47,757	31,648	28,982	25,980	2,731	12,766	8,205
Net income	74,970	109,390	67,170	39,045	27,165	26,118	29,308	9,563	9,017
Total assets	2,345,905	2,180,067	1,955,574	468,403	450,121	418,217	267,359	205,579	187,993
Net working capital (deficit)	(17,374)	80,802	47,327	154,638	144,993	149,612	(10,570)	(12,402)	(14,714)
Stockholders' equity	567,036	560,297	537,592	353,489	312,530	236,680	92,089	63,547	54,215

Note P—Quarterly Information (Unaudited).

	First 12 Weeks		Second 12 Weeks		Third 12 Weeks		Last 16 Weeks	
	1979	1978	1979	1978	1979	1978	1979	1978
Sales	$3,029,772	$2,815,033	$3,130,649	$2,916,519	$3,199,454	$2,991,941	$4,357,986	$3,917,076
Gross profit	644,574	594,740	685,059	641,449	681,502	628,555	912,452	856,754
Net income	23,061	25,168	42,516	41,329	41,306	31,724	36,407	47,897
Net income per share	.55	.97	1.63	1.58	1.58	1.22	1.40	1.83
Dividends paid per share	.65	.55	.65	.55	.65	.55	.65	.65
Market price range of common stock	44-40¼	41¼-35⅛	44-34⅛	42¼-38¼	41¼-36	46-38¼	39¼-33⅛	46-38¼

Notes: Dollars are in thousands except per share figures.
Dividends are for calendar quarters.

SALES BY COUNTRY

(In millions U.S. $)	1979	1978	Percent Increase	Percent of Total 1979	Percent of Total 1978
United States	$10,765.9	$10,033.7	7.3%	78.5%	80.0%
Canada	1,865.5	1,648.8	13.1	13.6	13.1
United Kingdom	538.8	393.1	37.1	3.9	3.1
Australia	432.4	379.9	13.8	3.2	3.0
West Germany	115.3	95.1	21.2	.8	.8
Total	$13,717.9	$12,550.6	9.3%	100.0%	100.0%

STORES BY COUNTRY

	End of Fiscal Year 1979		Number of Stores Opened				
	Million Sq. Ft.	Stores	1979	1978	1977	1976	Prior to 1975
United States	49.1	1,971	81	99	101	85	86 1,519
Canada	6.8	277	12	7	16	12	10 220
United Kingdom	1.6	88	6	1	3	2	5 71
Australia	1.6	63	4	2	4	9	7 37
West Germany	.3	26	1	2	2	1	3 17
Total	59.4	2,425	104	111	126	109	111 1,864

Accountants' Report
Peat, Marwick, Mitchell & Co.

To the Board of Directors and Shareholders
of Safeway Stores, Incorporated:

We have examined the consolidated balance sheet of Safeway Stores, Incorporated and subsidiaries as of December 29, 1979 and December 30, 1978 and the related consolidated statements of income and retained earnings and changes in financial position for the two years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Safeway Stores, Incorporated and subsidiaries at December 29, 1979 and December 30, 1978, and the results of their operations and changes in their financial position for the two years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

One Kaiser Plaza,
Oakland, California 94612
February 29, 1980

Executive Offices
Fourth and Jackson Streets,
Oakland, California 94660
(415) 891-3000

Transfer Agents
The Chase Manhattan Bank (National Association), New York, New York and the Crocker National Bank, San Francisco, California

Registrars
The Chase Manhattan Bank (National Association), New York, New York
and The Bank of California, National Association, San Francisco, California

Accountants
Peat, Marwick, Mitchell & Co.

10-K Report
A facsimile of Safeway's 1979 10-K Report filed with the Securities and Exchange Commission may be obtained by writing the Corporate Controller at our executive offices.

Annual Meeting
The 1980 Annual Meeting of Stockholders will be held on May 20, 1980. In connection with this meeting, proxies will be solicited by the management. A notice of the meeting, together with a proxy statement and a form of proxy, will be mailed April 7, 1980. This Annual Report does not constitute part of the proxy soliciting material.

Management's Discussion of the Results of Operations

Sales increased 9.3% to $13.718 billion in 1979, up from $12.551 billion in 1978. 1978 sales had increased 11.6% over sales of $11.249 billion in 1977. Inflation and increased square footage were the major factors in the 1979 sales increase.

Gross profit as a percent of sales decreased from 21.7% in 1978 to 21.3% in 1979, following an increase from 20.7% in 1977. The decrease in 1979 reflected intensified competitive pressures. Operating and administrative expenses increased as a percent of sales from 18.5% in 1977 to 18.9% in 1978 and 19.1% in 1979 due principally to increased employee costs.

Interest expense increased substantially to $91.3 million in 1979, from $74.1 million in 1978 and $70.1 million in 1977. The increase in 1979 was due to increased short-term borrowings and the higher cost of money experienced during the year (see Note E).

The losses on translation of foreign currencies have fluctuated from $3,253,000 in 1977 to $7,856,000 in 1978 and then down to $1,964,000 in 1979. The principal factor causing this fluctuation has been the Canadian dollar exchange rate, which declined substantially in 1977 and 1978 and then stablized in 1979.

Other income increased to $14,447,000 in 1979 from $9,135,000 in 1978 and $7,171,000 in 1977. The 1979 increase was due to interest income received as part of the settlement of a tax dispute and higher rates earned on short-term investments.

The provision for income taxes as a percent of pre-tax income dropped to 36.2% in 1979 from 47.2% in 1978 and 44.5% in 1977. Major factors influencing the tax rate were investment tax credits (7.0% of pre-tax income in 1979, and 4.8% and 7.4% in 1978 and 1977, respectively), United Kingdom inventory relief in 1979, discussed in Note D, and the reduction in the U.S. statutory corporation income tax rate from 48% to 46% effective in 1979.

Net income was $143.3 million in 1979, compared to $146.1 million in 1978 and $102.3 million in 1977; or as a percent of sales, 1.04% in 1979, 1.16% in 1978 and 0.91% in 1977. Although pre-tax income declined by 18.8% in 1979, the lower provision for income taxes nearly offset that decrease. For supplemental information on the effect on income of the LIFO method in valuing inventories, see "Merchandise Inventories" in Note A to the consolidated financial statements.

Management's Responsibility for Financial Statements

The consolidated financial statements of Safeway Stores, Incorporated and its subsidiaries have been prepared in accordance with generally accepted accounting principles applied on a consistent basis and include amounts that are based on management's best estimates and judgments. Management is responsible for the integrity and objectivity of the data in these statements. Financial information elsewhere in this Annual Report is consistent with that in the financial statements.

To fulfill its responsibilities, management has developed and maintained a strong system of internal accounting controls. There are inherent limitations in any control system in that the cost of maintaining a control should not exceed the benefits to be derived. However, management believes the controls in use are sufficient to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that the financial records are reliable for preparing the financial statements. The controls are supported by careful selection and training of qualified personnel, by the appropriate division of responsibilities, by communication of written policies and procedures throughout the Company and by an extensive program of internal audits.

Peat, Marwick, Mitchell & Co., independent certified public accountants, whose report follows the consolidated financial statements, are engaged to provide an independent opinion regarding the fair presentation in the financial statements of the Company's financial condition and operating results. They obtain an understanding of the Company's systems and procedures and perform tests of transactions and other procedures sufficient to provide them reasonable assurance that the financial statements are neither misleading nor contain material errors.

The Board of Directors, through its Audit Committee composed of outside Directors, is responsible for assuring that management fulfills its responsibilities in the preparation of the financial statements. The Board, on the recommendation of the Audit Committee and in accordance with Stockholder approval, selects and engages the independent public accountants. The Audit Committee meets with the independent accountants to review the scope of the annual audit and any recommendations they have for improvements in the Company's internal accounting controls. To assure independence, the independent accountants have free access to the Audit Committee and may confer with them without management representatives present.

Directors and Officers

Directors

John F Bookout
President & Chief Executive Officer
Shell Oil Company

Percy Chubb, III
Senior Vice President
The Chubb Corporation
(Property and Life Insurance)

Charles de Bretteville
Former Chairman of the Board
The Bank of California, N.A.

Malcolm R Grover
Former Senior Vice President

Edward N. Henney
Senior Vice President

Mary Gardiner Jones
Vice President – Consumer Affairs
Western Union Telegraph Company

Marjorie S. Kinney
President
Kinney Marketing Corporation

Roger D. Lapham, Jr.
Chairman & Managing Director
RAMA Corporation Ltd.
(Insurance brokerage)

Dale L. Lynch
President and Chief
Operating Officer

Merrill L. Magowan
Vice President
Merrill Lynch, Pierce, Fenner &
Smith Incorporated

Peter A. Magowan
Chairman and Chief
Executive Officer

W. S. Mitchell
Chairman of the Executive
Committee

J. A. Rowland
Senior Vice President

William H. Webster
President
Webster Feed Lots

Brayton Wilbur, Jr.
Executive Vice President
Wilbur-Ellis Company
(Importing & Exporting)

W. Maurice Young
Chairman of the Board
and Chief Executive Officer
Finning Tractor and Equipment
Company, Ltd.
(Caterpillar Dealership)

Executive Officers

Peter A. Magowan
Chairman and
Chief Executive Officer

Dale L. Lynch
President and
Chief Operating Officer

Clifford L. Gant
Vice President and Controller

Edward N. Henney
Senior Vice President
Supply Operations

Philip G. Horton
Vice President
Real Estate, Industrial Design and
Construction, Retail Engineering,
Warehouse and Transportation
Services.

Neils V. Lawson
Vice President
Management Information and
Services

James M. McGinty
Vice President and Treasurer

John L. Repass
Senior Vice President
Personnel and Industrial Relations

J. A. Rowland
Senior Vice President – Retail

Harry D. Sunderland
Senior Vice President – Finance

Robert J. Van Gemert
Senior Vice President – Law
Secretary and General Counsel

Vice Presidents – Retail

John Bell
Donald R. Cannon
John A. Cartales
Gerald V. Curtright
Carey A. Ford
Allen Francis
Albert J. Fulton
Donald Gates
Horace A. Justice
John S. Kimball
William M. Langley
Gene J. Lawson
W. W. Liedtke
William D. Love
Fred E. MacRae
William H. Maloney
Pete P. Martin
John R. Maxwell
Donald J. Phillips
Sam E. Raburn
Donald J. Smith
James R. Smith
Elston W. Starkey
Ralph C. Ward
John W. Warthan
Forrest Woolery

Vice Presidents – Supply

Loyd J. Fox
Roland Frederick
John D. Lyding
Harold T. Nelson
Walter J. Schoendorf
Thomas C. Terry

Vice Presidents – Service

Paul A. Baumgart
Gerald E. Brown
Gaylord H. Hanson
Gordon W. Jones
Milton K. Kegley
Robert M. Lyness
George D. Marshall
Calvin P. Pond
John L. Prehn
John H. Prinster
Frank D. Srubar
Patrick S. Toman
Ronald F. Zachary

FOREIGN SUBSIDIARY OPERATIONS

Canada Safeway Limited

A. G. Anselmo
President and Chief Executive Officer

W. F. Griffiths
Chairman and Retail Division Manager

R. F. Hendy
Vice President and Retail Division Manager

N. M. Knebel
Vice President and Retail Division Manager

Vern E. Fahey
Vice President and Retail Division Manager

D. L. Olson
Vice President and Retail Division Manager

Safeway Food Stores Limited (United Kingdom)

T. E. Spratt
Chairman, Managing Director and Retail Division Manager

Australian Safeway Limited

J. W. R. Pratt
Chairman, Managing Director and Retail Division Manager

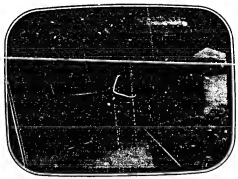
"Safeway" Supermarkt GmbH (West Germany)

Manfred Filzek
Manager and Retail Division Manager

Johs. Esmarch's Eftf. A/S (Denmark)

Niels Norregaard
General Manager

Note: Above listings include certain changes made since year-end.



Kermit Berge, a head clerk at one of our stores, demonstrates to another employee a prototype of the shopping cart he designed for handicapped customers. Project has received commendations from the National Easter Seal Society and a number of local rehabilitation agencies. We are installing one of these carts in each of our Washington, D.C. Division stores.

Everything you want from a store

Last year we launched a major advertising campaign throughout our operating areas in the U.S. and Canada to call attention to the "little bit more" that keeps Safeway a step ahead of its competitors. That slogan is exemplified best by the extra efforts of thousands of Safeway employees, both on and off the job.

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